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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D C 20548

HUMAN RESOURCES
DIVISION

JUL 12 1976

The Honorable Terrel H. Bell
Commissioner of Education
Office of Education
Department of Health, Education,
and Welfare

Dear Dr. Bell

We have recently completed fieldwork on our review of the Office of Education's Basic Educational Opportunity Grant (Basic Grant) program authorized by the Higher Education Act of 1965, as amended (20 U.S.C. 1070a). Our goal was to determine how well the program is meeting its legislative objectives and how well the Office of Education and participating institutions are administering it. We reviewed the administration of the program at selected postsecondary institutions, including Allstate Business College.

2 / Allstate Business College, a proprietary school in Dallas, Texas, is accredited by the Association of Independent Schools and Colleges and offers 12 courses leading to a certificate in business administration, accounting, or secretarial science. During the 1974-75 program year, 246 of 540 students enrolled on a full-time basis at Allstate received Basic Grants of about \$165,400. Allstate reported other student aid disbursements of \$462,100 including

--\$331,100 in National Direct Student Loans;

--\$89,200 in College Work-Study, and

--\$41,800 in Supplemental Educational Opportunity Grants

At all of the schools we visited we reviewed the files of selected students receiving Basic Grants. At Allstate we randomly selected and reviewed the files of 32 of the 246 recipients for 1974-75. We also reviewed and discussed with appropriate officials Allstate's procedures for packaging student aid and its grant calculation and refund procedures.

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Based on our sample results we estimate that about 192 (78 percent) of the 246 Basic Grant recipients dropped out of Allstate before completing their educational programs. We estimate that these recipients had received Basic Grant awards totaling about \$132,530. Of this amount about \$10,000 was returned to the Basic Grant account through tuition refunds; the remainder of \$122,530 was retained by the school for operating purposes.

The school director stated that most of these students were from low-income families and dropped out of school because they either had (1) financial problems such as the inability to support their families or pay child care expenses or (2) accepted job offers after obtaining some technical skills during their period of attendance. We were unable to document the reasons cited by the director for the high dropout rate because this information was not maintained by the school.

INADEQUATE PROCEDURES FOR PACKAGING STUDENT AID

Allstate's procedures for packaging student aid did not comply with Office of Education guidelines and could have acted as a deterrent to students continuing their postsecondary education. According to these guidelines, eligible students are entitled to Basic Grants irrespective of other student financial aid. The program's handbook states that

"Where the financial aid is administered and controlled by the school, it is the financial aid officer's responsibility to make any necessary adjustments in the other aid awarded to the student * * * Generally, the only time when such adjustments in other financial aid awards are necessary is when the total financial aid resources exceed the student's total need as computed by the school. In addition, in the event that a student's aid package includes a loan, and it is necessary to make an adjustment in the award package * * * no such adjustment can be made by applying the Basic Grant (or any portion thereof) to the student's loan obligation. Rather, the loan itself should be reduced."

✓ The National Task Force on Student Aid Problems, an organization representing more than 26 educational associations and organizations, addressed the issue of student aid packaging in a 1975 report. The Task Force recommended, in part, that packaging policies regarding loans and college work-study arrangements be designed so that disadvantaged students are not expected to provide unrealistic amounts from loans, earnings, or savings.

Allstate packages Supplemental Educational Opportunity Grants (Supplemental Grants) and National Direct Student Loans (Student Loans) to provide students' tuition, books, and fees. If students need additional aid for room, board, and personal expenses, Allstate arranges part-time employment under the College Work-Study program. According to Allstate officials the school's philosophy is that students provided their needs before they enrolled and should continue to do so through work-study.

The school does not include Basic Grants in the initial aid package because most students do not submit a Basic Grant application until enrollment or shortly thereafter. After students apply for Basic Grants, school officials calculate and add the grants to students' aid packages. However, contrary to program guidelines, school officials reduce Student Loans or Supplemental Grants by about the amount of the Basic Grants even though the students' total aid packages do not meet their total financial need. Reducing Student Loans or Supplemental Grants increases the funds available to the school which can then attract additional students to Allstate.

Our review of initial and adjusted financial aid packages for a sample of Basic Grant recipients at Allstate disclosed that about 84 percent of the students' cost of education was financed through grants, loans, and college work-study funds. While packaged aid as a percentage of total cost of education did not change after Allstate made its adjustments, the percentage of loans and supplemental grants decreased after Basic Grants were included in student aid packages.

The following table, which shows information on aid packages for 12 1/ selected students, illustrates this point.

| | <u>Initial aid packages</u> | | <u>Adjusted aid packages</u> | |
|---|-----------------------------|----------------|------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Total student financial need | \$28,200 | | \$28,200 | |
| Less aid packaged | | | | |
| Basic grants | \$ 500 | 2 | \$ 9,500 | 40 |
| Supplemental grants | 3,500 | 15 | 2,700 | 11 |
| Student loans | 10,300 | 43 | 2,100 | 9 |
| College work-study | 9,400 | 40 | 9,400 | 40 |
| | <u>\$23,700</u> | <u>100</u> | <u>\$23,700</u> | <u>100</u> |
| Total unmet need | \$ 4,500 | | \$ 4,500 | |
| | ===== | | ===== | |
| Average unmet need | \$ 375 | | \$ 375 | |
| Average earnings through College Work-Study program | \$ 783 | | \$ 783 | |
| Percent of need packaged | | 84 | | 84 |

The table also shows that students' work-study earnings averaged about \$783--almost 40 percent of students' aid. Provision for a substantial sum from work-study, besides requiring students to provide 16 percent of their need from private resources or employment, could place a hardship on low-income students and cause them to discontinue their postsecondary education. The National Task Force on Student Aid Problems confirmed in its recommendations that disadvantaged students who request aid should not be expected to contribute unrealistic amounts toward school expenses from earnings or savings. If, after receiving the additional \$9,000 in Basic Grant funds, Allstate had allowed the students to retain \$4,500 in Supplemental Grants and Student Loans, the aid packages would have met students' total need, and some students might have been more inclined to continue their postsecondary education.

1/Of the 32 files included in our sample, complete financial aid packaging information was available for only 12 students.

IMPROPER REFUND PROCEDURES

Allstate did not comply with Office of Education program regulations in computing refunds to the Basic Grant fund and used questionable procedures to determine the portion of students' tuition which should be refunded. As a result, refunds to the Basic Grant fund were understated.

Using criteria provided in the program's handbook, the Headquarters, Office of Education recalculated refunds which should have been returned to the Basic Grant fund for 23 of the 32 ^{1/} students sampled. This recalculation showed that Allstate had understated refunds to the Basic Grant fund by about \$1,900 for 21 students and had overstated refunds by about \$50 for 2 students. Based upon our sample results we estimate that Allstate understated refunds to the Basic Grant fund by a net amount of about \$14,900. (Overstated refunds totaled nearly \$400; understated refunds totaled about \$15,300.)

In calculating tuition refunds, Allstate unrealistically extended the period of student attendance thus reducing, in some cases, the percentage of aid to be returned to Federal programs. Allstate's 1974-75 catalog included a schedule showing the percentages of tuition which should be refunded upon withdrawal after varying periods of attendance. Although the catalog stated that students must not have more than five unexcused absences per month, no policy was provided for terminating students for excessive absences or for counting absences in calculating attendance periods. School officials advised us that the student's last day of attendance was used in determining the lapsed time of enrollment.

The Texas Education Code requires that students be terminated for excessive absences. Our review of attendance records for 1974-75 Basic Grant recipients who dropped out disclosed instances where numerous absences occurred between the date of enrollment and the last day of attendance. Furthermore, we found that, contrary to State criteria governing the operation of proprietary schools, Allstate had counted days of absence in determining the period of enrollment, thus resulting in a lower percent of tuition refunded. For example, a student enrolled on December 9, 1974, and was not officially dropped by the school until May 21, 1975. In the interim, the student was either partially or completely absent on 76 of the

^{1/}Of the 32 students in the sample, 23 withdrew and received some refund from the school

103 class days. Allstate did not refund the Basic Grant fund for this student. A Texas Education Agency review of Allstate's operations disclosed similar problems.

If properly implemented, Allstate's 1976-77 catalog might help to correct the above problems in calculating attendance periods and refunds. According to the catalog, students will be dismissed when their absences exceed 10 consecutive school days. Also, absences in excess of 10 percent of scheduled class attendance, leaves of absence, and school holidays will not be counted in calculating attendance periods for the purpose of calculating a student's refund.

IMPROPER GRANT CALCULATIONS

Allstate overstated 2 of the 32 Basic Grants for recipients in our sample because of failure to follow prescribed guidelines in calculating the awards. According to program guidelines, students are entitled to full Basic Grants if they enroll and attend classes in eligible programs for a full school year--generally at least 8 months. If students attend classes for less than 8 months, the grants must be reduced proportionately.

Allstate awarded full Basic Grants to two students who were enrolled in 6-month, instead of 8-month, courses. Consequently, these awards were overstated by about \$400.

CONCLUSIONS AND RECOMMENDATION

Allstate's policy for packaging student aid might have discouraged, rather than encouraged, some students from continuing postsecondary education.

Furthermore Allstate's

- aid packaging procedures do not comply with Office of Education's guidance,
- Basic Grant recipients usually withdraw from school before completing their course of study,
- procedures in calculating Basic Grants and tuition refunds for those students who withdraw from school are questionable,
- financial aid records were in such poor condition that only 12 of 32 student files were auditable.

Accordingly, we recommend that you direct that an on-site review of Allstate's administration of the Basic Grant and other Federal student aid programs be made.

We would appreciate your comments on the problems discussed in this letter and on actions taken on our recommendation.

Sincerely yours,

A handwritten signature in cursive script that reads "Ronald F. Lauve".

Ronald F. Lauve
Associate Director